

# FDIC State Profile

Winter 2005

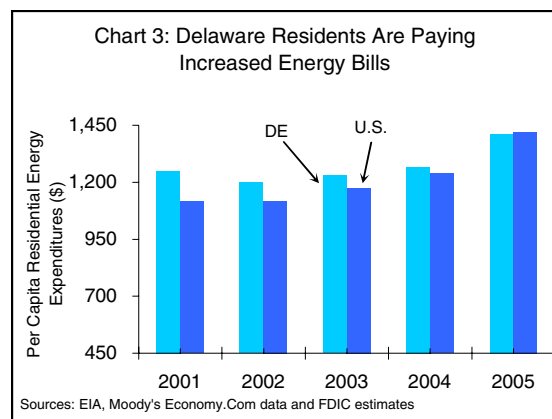
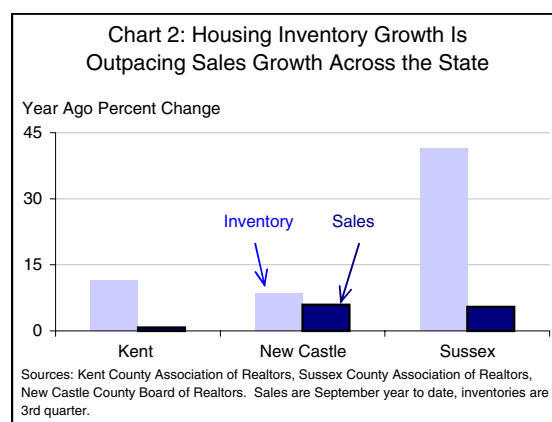
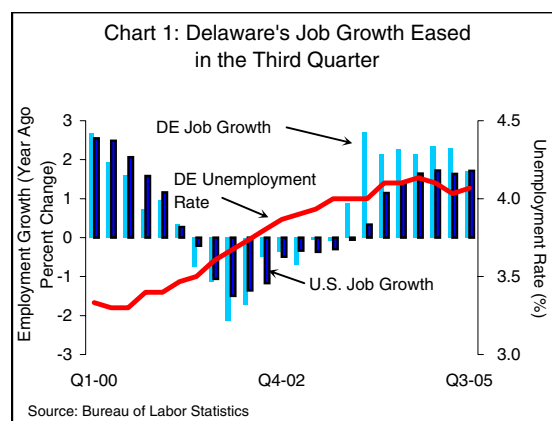
## Delaware

Delaware's employment growth slowed in third quarter 2005 and approximated the U.S. average.

- After rebounding sharply following the 2001 recession, job growth in Delaware has eased, falling below 2 percent in the third quarter 2005 for the first time since 2003 (see Chart 1). Delaware's third quarter 2005 job growth approximated the U.S. average, after seven quarters of above-average growth. At 4.1 percent, the unemployment rate has been stable and remained below the national average.
- A slower pace of job gains in government and the construction industry and increased manufacturing job losses contributed to easing employment growth in the state. Job growth continued at a steady pace in the state's retail, health services, and leisure and hospitality industries.
- Wilmington** increased jobs at a steady rate in the third quarter, while **Dover**, at just over 2 percent, ended its streak of six consecutive quarters above 4 percent.

Delaware's housing market may be transitioning to a more moderate pace this winter.

- At 15.3 percent, home price appreciation in Delaware continued at a strong pace in the third quarter (11<sup>th</sup> highest in the nation), though was down slightly after reaching a cyclical high of 17.3 percent in the prior quarter.<sup>1</sup> Appreciation has been higher in Dover than Wilmington, although the rate has slowed in both markets.
- Higher home prices and rising interest rates may be contributing to a moderation in housing demand this winter, traditionally a slower housing season. Through third quarter 2005, the growth rate of unsold housing inventory outpaced homes sales growth across the state (see Chart 2). In addition, median days on the market rose marginally in all three of the state's counties.<sup>2</sup>



<sup>1</sup>Office of Federal Housing Enterprise Oversight.

<sup>2</sup>Kent County Association of Realtors, Sussex County Association of Realtors, New Castle County Board of Realtors.

### Higher heating costs may constrain Delaware's consumers this winter.

- Higher energy costs could constrain consumer finances this winter. Delaware's residential energy costs have increased and estimates suggest that 2005 costs approximate the national average (see Chart 3). Natural gas and petroleum prices, the state's main home energy sources, are estimated to stay high through the winter. Higher energy costs have led Delaware's natural gas providers to file for rate increases of between 26 and 30 percent.<sup>3</sup>
- In combination, energy costs and rising interest rates may stress some of the state's consumers. Personal bankruptcy filings increased nationally and in Delaware prior to the enactment of the new bankruptcy law in October 2005. Although the per capita personal bankruptcy rate in Delaware has risen over the past few years, it has been consistently below the U.S. average.

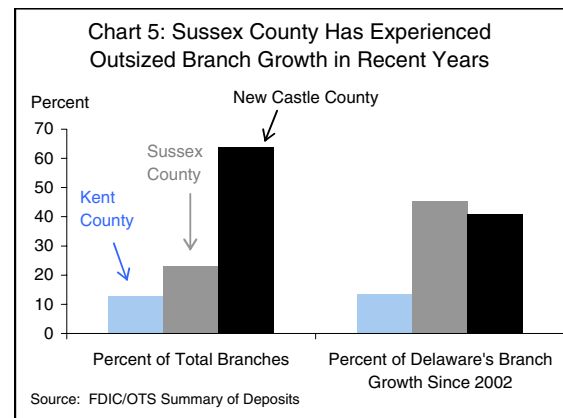
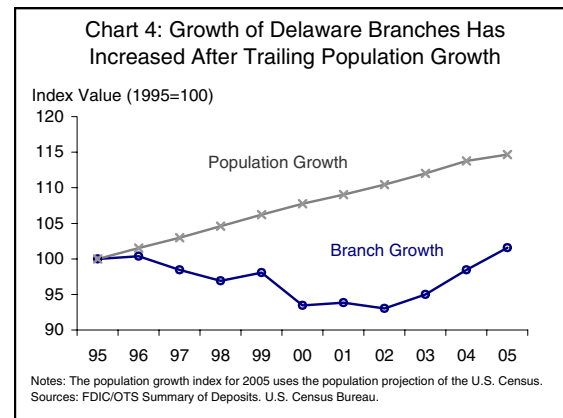
### Bank profitability improved slightly but reliance on noncore funding increased.

- The profitability (return on assets) of institutions headquartered in Delaware modestly improved in the third quarter 2005 compared with the similar 2004 period.<sup>4</sup> The net interest margin rose slightly as gains in asset yields more than offset increased funding costs, and the contribution of non-interest income increased.
- Increases in bank funding costs have lagged rises in interest rates. Between third quarter 2004 and third quarter 2005, funding costs reported by the state's institutions increased 72 basis points compared with a 200 basis point increase in the Federal funds rate.
- Credit quality, as measured by total loans past due, improved although provision expenses increased slightly on a year-over-year basis.

### Annual Summary of Deposit data collected by the FDIC shows branch growth accelerated and followed population migration.

- Despite steady population growth, Delaware's growth in bank branches was stagnant in the early 2000s reflecting consolidation and an on-line banking focus. However, a brick-and-mortar presence has re-emerged as banks compete for proximity to retail and commercial customers. As a result, branch growth has begun to bridge the gap with population growth in the state (see Chart 4).<sup>5</sup>

- Sussex County is home to 23 percent of the state's branches but represented 45 percent of branch growth since 2002 (see Chart 5). Population growth has been stronger in the area, exceeding 9 percent in Kent and Sussex counties between 2000 and 2004, compared with 3.4 percent in New Castle.
- The percentage of people over 65 also increased more in Kent and Sussex than other parts of the state; senior citizens now make up almost 20 percent of the population in Sussex County. Retired residents are a source of high-balance deposits and financial services, such as wealth transfer and trust.



<sup>3</sup>Delaware Public Service Commission.

<sup>4</sup>Unless otherwise stated, banking performance discussion excludes credit card and other specialty institutions and uses median amounts.

<sup>5</sup>Data as of June 30, 2005. For more information, see <http://www2.fdic.gov/sod/>. Bank branches include branches and main offices.

## Delaware at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.7%	2.3%	2.3%	2.3%	0.0%
Manufacturing (8%)	-2.9%	-4.7%	-2.5%	-2.3%	-3.9%
Other (non-manufacturing) Goods-Producing (6%)	3.3%	6.7%	7.9%	8.1%	0.8%
Private Service-Producing (72%)	1.9%	2.2%	2.4%	2.5%	0.4%
Government (14%)	2.7%	4.9%	2.2%	1.5%	0.3%
Unemployment Rate (% of labor force)	4.1	4.0	4.1	4.1	4.0

<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	6.2%	5.7%	6.7%	4.4%
Single-Family Home Permits	-4.2%	6.8%	11.4%	11.7%	17.7%
Multifamily Building Permits	-6.9%	65.7%	108.2%	15.8%	62.9%
Existing Home Sales	5.2%	2.2%	28.2%	19.6%	9.0%
Home Price Index	15.3%	17.3%	16.5%	14.1%	8.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.86	4.17	4.14	4.44	5.03

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	35	35	35	34	34
Total Assets (in millions)	457,234	457,667	399,606	436,274	216,182
New Institutions (# < 3 years)	3	3	3	2	4
Subchapter S Institutions	1	1	1	1	0

<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.68	0.86	1.02	1.09	1.35
ALLL/Total Loans (median %)	1.22	1.27	1.33	1.31	1.38
ALLL/Noncurrent Loans (median multiple)	3.10	3.04	2.95	3.14	2.79
Net Loan Losses / Total Loans (median %)	0.08	0.11	0.10	0.17	0.32

<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	10.49	10.98	10.13	10.23	10.34
Return on Assets (median %)	1.51	1.62	1.15	1.68	2.05
Pretax Return on Assets (median %)	2.50	2.56	1.88	2.52	3.12
Net Interest Margin (median %)	3.94	3.99	3.87	3.90	3.97
Yield on Earning Assets (median %)	6.29	5.99	5.28	5.15	5.67
Cost of Funding Earning Assets (median %)	2.12	1.99	1.35	1.15	1.56
Provisions to Avg. Assets (median %)	0.11	0.17	0.14	0.13	0.15
Noninterest Income to Avg. Assets (median %)	1.80	2.35	1.38	1.53	2.15
Overhead to Avg. Assets (median %)	3.14	3.21	3.09	3.12	3.54

<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	72.4	69.8	65.4	70.7	65.3
Noncore Funding to Assets (median %)	28.2	25.5	32.1	27.5	37.5
Long-term Assets to Assets (median %, call filers)	8.6	6.5	10.7	10.2	11.5
Brokered Deposits (number of institutions)	19	19	21	19	17
Brokered Deposits to Assets (median % for those above)	5.5	5.2	5.1	4.7	7.5

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	23.0	29.8	25.8	30.6	18.1
Commercial Real Estate	34.7	33.3	56.5	75.2	39.7
<i>Construction &amp; Development</i>	2.3	1.3	3.0	2.3	1.3
<i>Multifamily Residential Real Estate</i>	0.0	0.0	0.0	0.7	0.7
<i>Nonresidential Real Estate</i>	21.9	21.4	52.1	51.1	37.7
Residential Real Estate	139.8	149.1	165.4	191.3	182.3
Consumer	20.8	22.1	24.4	23.8	27.9
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	156	221,259	< \$250 million	8 (22.9%)
Dover, DE	11	1,404	\$250 million to \$1 billion	9 (25.7%)
			\$1 billion to \$10 billion	11 (31.4%)
			> \$10 billion	7 (20%)